

CITY OF COLESBURG

INDEPENDENT ACCOUNTANT'S AGREED UPON PROCEDURES REPORT

FOR THE PERIOD

JULY 1, 2013 THROUGH JUNE 30, 2014

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City of COLESBURG

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Sampson	Mayor	Jan 2016
Loras Matt	Council Member	Jan 2015
Mitch Every	Council Member	Jan 2016
Leo Roling	Council Member	Jan 2016
Rex Meyer	Council Member	Jan 2017
Tom Forkenbrock	Council Member	Jan 2017
Margaret Fensterman	Clerk/Treasurer	Indefinite
Timothy Schloss	Attorney	Indefinite

Independent Accountant's Agreed Upon Procedures Report

To the Honorable Mayor
and Members of City Council:

We have performed agreed upon procedures of the City of Colesburg pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Colesburg for the period July 1, 2013 through June 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards for agreed upon procedures engagements issued by the American Institute of Certified Public Accountants, the standards for attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the agreed upon procedures program guide prepared by the Office of the Auditor of State. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt for revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit, examination, or a review of the operations of the City of Colesburg, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Colesburg, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Colesburg, the Office of Auditor of State of Iowa, and other parties to whom the City of Colesburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Colesburg during the course of our procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wesley & Company PC
Certified Public Accountants

May 5, 2015

Detailed Recommendations

City of Colesburg

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – All accounting functions are handled by the City Clerk without adequate compensating controls. We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of the City Clerk's bank reconciliations, annual financial reporting, budget preparation, and employment return preparation should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The City's depository resolution is dated January 5, 1981 and states a maximum deposit limit of \$100,000 with one financial institution of which the City has exceeded that limit.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City should either comply with the depository resolution in place or update it to comply with Chapter 12C.2 of the Code of Iowa.

- (C) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Colesburg

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (D) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (E) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. August 2013 bank balances, when considering outstanding checks, were in excess of Treasurer's report by \$15,995. The February 2014 Treasurer's report, when considering outstanding checks, was in excess of bank balances by \$85,884. The March 2014 Treasurer's report, when considering outstanding checks, was in excess of bank balances by \$100,195.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled monthly and variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – The accounts receivable aging from the City's software does not accurately reflect past due balances. The clerk does, however, reconcile delinquent accounts and makes manual adjustments to the accounts receivable aging report generated by the software.

Recommendation – The City's software should be reviewed to ensure that it accurately reflects the past due accounts. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts.

- (G) Monthly Treasurer's Report – August 2013 bank balances, when considering outstanding checks, were in excess of Treasurer's report by \$15,995. February 2014 Treasurer's report, when considering outstanding checks, was in excess of bank balances by \$85,884. March 2014 Treasurer's Report, when considering outstanding checks, was in excess of bank balances by \$100,195. Treasurer's report balances for these months did not agree to balances reported in the City's software. Because of these discrepancies, it is unclear whether fund balances are accurate.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled monthly and variances, if any, should be reviewed and resolved timely. The City should establish procedures to ensure computer generated reports are accurate. The City should take immediate action to correct the recordkeeping in the software and then utilize that software for proper monthly reconciliations of bank statements, fund balances, accounts receivable, and accounts payable.

City of Colesburg

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (H) Payment of Sewer Revenue Bonds – Principal and interest on the City's sewer revenue bonds are to be paid from net revenues that are set aside in a Sewer Revenue Bond Sinking Fund as described in the bond issue. This fund has not been created.

Recommendation – The City should transfer net revenues from the Enterprise, Sewer Fund to the Sewer Revenue Bond Sinking Fund for future principal and interest obligations. Payments on the bonds should be made from the Sewer Revenue Bond Sinking Fund as required.

- (I) Sewer Capital Project Revenue – A community development block grant in the amount of \$1,000 for the sewer capital project was duplicated as a deposit on June 26, 2014.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, should be reviewed and resolved timely.

- (J) Approval of Hours Worked – Payroll hours are not approved for the City Clerk, maintenance employee, or library employees before payroll checks are issued. There was also no documentation supporting the approved pay rates of library or pool personnel.

Recommendation – The City should put into place procedures to have proper authorizations of hours worked prior to issuing payroll checks and should have the proper approval by the City Council for all employees pay rates.

- (K) Quarterly Payroll Reports – The City Clerk had not timely Filed Form 941 for the 2nd, 3rd, and 4th quarters of 2013 and for the 1st and 2nd quarters of 2014. A notice was received from the IRS and the Forms were then filed. Penalties were waived. At the time of examination, it was discovered that the 3rd quarter of 2014 was also not filed in which the clerk contacted the IRS and subsequently filed the Form 941 immediately. Penalties were waived.

Recommendation – The City should provide oversight to ensure timely filed payroll reports and should review those reports and compare them to the payroll records for accuracy.

- (L) Annual Financial Report – The excess revenues (under) expenditures on the financial report for fiscal year ended June 30, 2014 do not agree with the City's accounting software. While the clerk has generated reports by fund using the software and recorded those numbers onto the AFR, it is unclear whether these reports are complete or accurate.

The June 30, 2014 AFR fund balance does not agree to the treasurer's report. The AFR is \$299,970.65 under what is reported on the June 30, 2014 treasurer's report for total fund balances.

Recommendation – The City should take immediate action to reconcile those reports by fund to make sure all revenues and expenditures are properly reported on the annual financial report and to make sure it is a complete and accurate report.

City of Colesburg

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (M) Fund Balance – The general fund had a deficit balance of \$19,017.22 at June 30, 2014. The clerk did not provide the council with a monthly comparison of actual disbursements to the budget.

Recommendation – The City should put in place procedures to make sure there are no deficit fund balances. The clerk should immediately begin providing the council with monthly comparisons of actual disbursements to the budget.

- (N) Receipts – The property tax revenue reported on the AFR is under reported by \$2,004 when compared to confirmations from the county auditor.

Recommendation – The City should take immediate action to make sure all revenue and expenditures are properly reported on the annual financial report and to make sure it is a complete and accurate report.

- (O) Questionable Disbursements – As defined in the Attorney General's opinion dated April 25, 1979, we believe certain disbursements may not meet the requirements of public purpose since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Baker Taylor	No supporting documentation for library supplies	\$ 75.12
John Deere Financial	No supporting documentation for Theisen's purchases	161.99
Carol Walthart, Librarian	No supporting documentation for mileage to IFA conference	111.87
Carol Walthart, Librarian	No supporting documentation for Scholastic books; check number 25579 recorded in software for this expense was actually issued for a different expense when viewing the cancelled check	45.00
Carol Walthart, Librarian	No supporting documentation for supplies and library books	747.44
Margaret Fensterman, Clerk	No supporting documentation software upgrade	59.99
Cory Schenke, Maintenance	No supporting documentation for postage and supplies	31.00
Cory Schenke, Maintenance	No supporting documentation for mileage to a conference	140.12

City of Colesburg

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

Questionable Disbursements (continued)

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Black Hills Energy	Check #25530 was used twice in software for two Black Hills invoices but cancelled check images show one check as #25530 and the second check as #25531	227.13
Rex Meyer, Council	Check #25405 was issued for fire training reimbursement but cancelled check image showed check as #25424; check #25405 was issued to another Vendor for \$55	85.84

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. In addition, it is important to have proper supporting documentation for expenses such as invoices to support that public purpose.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. The City should establish written policies and procedures for payment of expenses that include the requirements for proper documentation. Proper bank reconciliations and review by a separate individual should be done to ensure accuracy in bookkeeping and to prevent duplicate check numbers from being issued in the software.

- (P) Unclaimed Property Report – The City does not report unclaimed property to the State Treasurer annually before November 1 as required by Chapter 556.11 of the Code of Iowa. The City does have aged credit balances owed to customers on utility accounts.

Recommendation – The City should report the aged credit balances as unclaimed property to the State Treasurer if the city is unable to refund these credit balances to the proper customer.

City of Colesburg

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

Staff

These procedures were performed by:

Kathy S. Mersch, CPA, Manager

Ann O. Manson, CPA
Officer in Charge
Gosling & Company, P.C.